

“Property Rich, Income Poor” Homeowners Age 65 and Over

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These are some further results from a household tax model for Indiana renters and homeowners. The table on the next page compares tax payments for homeowners age 65 and over with various incomes and home values. Included are the major Federal, state and local taxes.

Data on the property, income and spending of representative households are used to calculate tax payments for the various taxes. Incomes and home values for Indiana households are available for the Bureau of Census American Community Survey, a new data source based on a survey of three million people nationwide. Data are for Indiana households for 2006. These data are the basis for calculating property and income tax payments. Expenditures are based on the U.S. Bureau of Labor Statistics Consumer Expenditure Survey, which shows spending on 73 categories of goods and services. These data are the basis for calculating sales and excise tax payments. Data on vehicle values from the Federal Reserve’s Survey of Consumer Finances are used for motor vehicle excise tax payments.

The results in the table show tax payments under the existing tax system, and tax payments under a reformed tax system. The reforms include: a takeover by the state of the school general fund, school bus operating fund, and county welfare funds; an added standard deduction equal to 35% of remaining homestead assessed value after the existing \$45,000 deduction is subtracted; and a one percentage point increase in the sales tax, from 6% to 7%. These three policy changes were included in HB1001 as introduced, and (with some amendments) are still part of the bill. None of the households in the table would be eligible for the 1% circuit breaker credit at state average property tax rates.

An increase in the sales tax and a reduction in the property tax for homeowners will reduce the taxes of households who are “property rich and income poor,” and increase the taxes of households that are “property poor and income rich.” Property rich households will receive larger property tax cuts, because they pay more such taxes at the start. They will pay less in added sales taxes because their lower incomes do not support much spending on taxable goods and services. Conversely, property poor households (at the extreme, renters) will not receive large property tax cuts, because they pay less or nothing in property taxes. They will pay more in added sales taxes because their relatively higher incomes support more spending on taxable goods and services.

This pattern is evident in the table. All four homeowners see overall tax reductions. The property tax cuts they receive more than offset the added sales taxes and the added income taxes, which occur because the property tax deduction is smaller. The renter receives no property tax cut, but pays added sales taxes, and so sees an overall tax increase.

The “property rich income poor” household has a relatively low income, \$27,500, and a relatively valuable house, \$150,000. This household receives a bigger tax cut than the low income homeowner, who owns a less valuable house. The larger is the property tax payment at the start, the larger is the dollar reduction in the property tax. The “property rich income poor” household also sees a bigger tax cut than the middle income homeowner, who has the same valued house but a higher income. The middle income homeowner spends more on taxable goods and services, and so sees a bigger sales tax increase.

In general, households with high home values and low incomes tend to benefit more than other taxpayers from a sales tax increase that funds a property tax cut. Households with even higher home values than shown here could also be eligible for the 1% circuit breaker credit, which would make their overall tax reductions larger.

Effect of HB 1001 as Introduced on Representative Households Age 65 and Over

	Homeowners			"Property Rich, Income Poor"	Renter
	Low Income	Mid Income	High Income		
Home Value	95,000	150,000	225,000	150,000	-
Income	27,500	62,500	150,000	27,500	27,500
Existing Tax System					
Property Tax	857	1,860	3,227	1,860	
Sales Tax	740	1,165	2,025	727	731
State/County Income Tax	(26)	1,084	4,510	(26)	(26)
Federal Income Tax	(428)	1,426	21,878	(428)	(428)
All Other Taxes	1,048	3,230	8,911	1,042	1,052
Total Tax Payment	2,191	8,765	40,551	3,175	1,330
HB1001 as introduced					
Property Tax	581	1,285	2,246	1,285	
Sales Tax	860	1,354	2,351	849	845
State/County Income Tax	(26)	1,109	4,521	(26)	(26)
Federal Income Tax	(428)	1,481	22,150	(428)	(428)
All Other Taxes	1,048	3,231	8,912	1,043	1,052
Total Tax Payment	2,035	8,461	40,180	2,724	1,444
Dollar Change					
Property Tax	(276)	(574)	(981)	(574)	-
Sales Tax	120	189	326	122	114
State/County Income Tax	-	25	11	-	-
Federal Income Tax	-	55	272	-	-
All Other Taxes	1	1	1	1	-
Total Tax Payment	(156)	(304)	(371)	(451)	114

Households are 2-person, age 65 or over.

Low income household incomes are mostly social security; higher income households include social security, wages and salaries, self-employment income and interest income.